

Date: December 2, 2014

To: Thomas J. Bonfield, City Manager
Through: Wanda S. Page, Deputy City Manager
From: David Boyd, Finance Director
Keith Herrmann, Deputy Finance Director
Chad Cowan, Treasurer
Subject: Adopt a Resolution Approving an Amendment to the Installment Purchase Contract with New Durham Corporation and Related Matters

Executive Summary

Based on favorable interest rates, the City is in a position to advance refund certain maturities of Certificates of Participation ("COPs") and realize positive economic savings. The Finance Department is currently pursuing refunding portions of the City's outstanding COPs Series 2007A (the "Refunded Bonds") in the amount of \$26,480,000.00, which represents all of the callable maturities from the certificates of participation that financed the Durham Performing Arts Center ("DPAC"). Based on market rates as of December 1, 2014, the refunding will generate approximately \$2,300,000.00 in net present value savings (NPV) or 8.80% of the Refunded Bonds. The City will continue to refine the refunding structure (i.e., identifying the best refunding candidates) up to the time of pricing.

Recommendation

The Finance Department recommends that the City Council:

1. Adopt a Resolution of the City Council of the City of Durham, North Carolina, approving an Amendment to the Installment Purchase Contract with New Durham Corporation and Related Matters; and,
2. Authorize the City Manager or his designee to execute other associated legal documents as necessary to complete this transaction and to make changes to any of the legal documents prior to execution, so long as the changes are consistent with the intent of the agenda item memo and the existing versions of the documents.

Background

On January 23, 2007, the City issued Certificates of Participation, Series 2007A in the amount of \$34,440,000.00 to finance the construction and equipping of the DPAC. As of December 2, 2014, the outstanding par amount of the 2007A COPs is \$29,185,000.00. The 2007A COPs were sold with a call date of June 1, 2017 and any obligations maturing after that date may be refinanced. The portion of the 2007A COPs which mature after the call date are \$26,480,000.00.

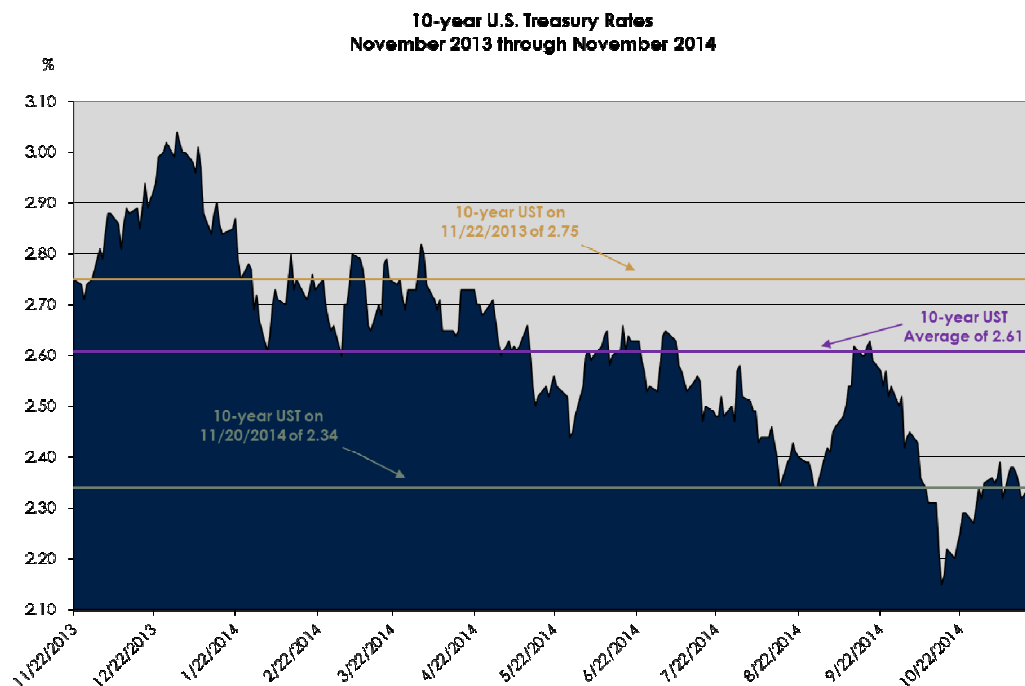
The City intends to refinance all of the callable 2007A COPs provided that they are economically viable. Depending on interest rates at the time of sale, the City may refinance less than all of the callable 2007A COPs outlined above.

The City's current debt management policy (FP707.01) requires NPV savings of 5.0% of the refunded bonds but allows for refundings below this threshold to be evaluated on a case-by-case basis. The Government Finance Officers Association (GFOA) has a "Recommended Practice" related to advance refundings. The practice suggests a minimum refunding threshold of between 3.0% and 5.0% of the refunded bonds. The City's threshold is at the high end of the suggested range. As previously outlined, current savings levels are significantly above the City's target.

Issues and Analysis

Given the low level of interest rates, the City has the potential to realize annual debt service savings by refunding previously issued bonds. Following a thorough evaluation of market conditions, interest rates, and other financing related expenses, the Finance Department has determined that a negotiated bond sale, as is common practice across North Carolina on refunding transactions, will provide the City with the best overall financing results. The bonds will be issued in conjunction with a refinancing of General Obligation Bonds and should help to minimize the costs of issuance related to the combined financings.

Current Interest Rates Over the past year, interest rates in the taxable municipal bond market (and the broader bond market) have dropped to low levels. The following chart tracks the 10-year U.S. Treasury rates (which taxable municipal bonds are indexed to) over the past year.



As is clearly illustrated, the current rate of 2.34% is below the average rate for the year of 2.61% and over 0.40% below the rate one year ago.

Timing of Bond Sale

The sale date for the bond issue is planned for January 28, 2015 with a closing in late February or early March.

Financing Team

The Finance Department has filed an application with the Local Government Commission ("LGC") to sell the bonds through negotiated sale, and has retained Parker Poe Adams & Bernstein LLP and The Banks Law Firm as Co-Bond Counsel. The City's Financial Advisor, DEC, Inc has also been retained for the transaction. The underwriting firms Robert W. Baird & Co., PNC Capital Markets LLC and Blaylock Beal Van LLC have been hired to underwrite the bond issue. The Escrow Agent will be U.S. Bank National Association. Both the Banks Law Firm and Blaylock Beal Van LLC are minority owned firms.

Copies of the preliminary official statement for this issue will be available for review after December 16, 2014 in the City Clerk's Office.

Alternatives

The City could choose not to refinance the 2007A COPs and there would be no savings realized.

Financial Impact

Refinancing the Refunded Bonds would result in decreased future debt service payments. An estimate of the savings is below.

Estimated Savings on the Refunded Bonds

Date	Existing Debt Service	Projected New Debt Service	Savings	PV Savings
6/30/2015	\$753,356	\$699,289	\$54,067	\$53,466
6/30/2016	1,506,712	1,340,567	166,145	163,350
6/30/2017	1,506,712	1,342,759	163,953	155,824
6/30/2018	2,486,712	2,322,980	163,733	150,393
6/30/2019	2,490,950	2,325,072	165,879	146,909
6/30/2020	2,486,774	2,320,988	165,786	141,646
6/30/2021	2,489,469	2,322,812	166,657	137,351
6/30/2022	2,488,465	2,321,480	166,985	132,760
6/30/2023	2,488,762	2,322,030	166,732	127,882
6/30/2024	2,490,077	2,326,138	163,939	121,355
6/30/2025	2,487,124	2,322,166	164,958	117,788
6/30/2026	2,489,903	2,325,173	164,730	113,472
6/30/2027	2,487,846	2,324,741	163,105	108,390
6/30/2028	2,485,953	2,321,633	164,320	105,307
6/30/2029	2,488,938	2,323,993	164,946	101,944
6/30/2030	2,486,234	2,321,293	164,941	98,314
6/30/2031	2,487,839	2,324,304	163,535	94,007
6/30/2032	2,488,186	2,322,513	165,673	91,823
6/30/2033	2,486,989	2,320,769	166,220	88,826
6/30/2034	2,023,964	1,858,721	165,243	85,136
	\$45,600,961	\$42,409,418	\$3,191,543	\$2,335,942

SDBE Summary

There are no SDBE issues with regard to this item.

Attachments

Approving Resolution (3 pages)

First Contract Amendment (11 pages)